

## Message Text

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ACTION AF-08

INFO OCT-01 ISO-00 ONY-00 CCO-00 /009 W  
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O R 101630Z AUG 76

FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC IMMEDIATE 6141

INFO AMEMBASSY ABIDJAN

UNCLAS NOUAKCHOTT 1925

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ABIDJAN FOR RBFO

E.O. 11652: N/A

TAGS: AFSP, MR

SUBJECT: IMPACT OF EXCHANGE RATE FLUCTUATIONS AND OF  
INFLATION ON EMBASSY BUDGET

REF: (A) STATE 189967, (B) ABIDJAN 7257, (C) ABIDJAN 7283

1. IMPACT OF EXCHANGE RATE FLUCTUATIONS ON EMBASSY BUDGET  
VARIES FROM YEAR TO YEAR AS LOCAL OUGUIYA (UM) ALTERNATELY APPRECIATES AND DEPRECIATES VIS-A-VIS US DOLLAR. BY WAY OF BACKGROUND, MAURITANIA ESTABLISHED ON JUNE 29, 1973, THE OUGUIYA, WHICH REPLACED CFA FRANC AT RATE OF CFAF 5 PER OUGUIYA. MAURITANIA MAINTAINED FIXED RATIO BETWEEN UM AND FRENCH FRANC (UM 10.0 EQUALS F1.00) UNTIL JANUARY 22, 1974. SINCE THEN CENTRAL BANK HAS PEGGED OUGUIYA TO EQUALLY WEIGHTED COMPOSITE OF FIVE CURRENCIES (US DOLLAR, FRENCH FRANC, BELGIAN FRANC, DEUTSCHE MARK AND NETHERLANDS GUILDER). RATE IS DETERMINED DAILY, ON BASIS OF VARIATIONS IN QUOTATIONS OF US DOLLAR FROM ITS "PARITY" RELATIONSHIP TO OTHER FOUR CURRENCIES IN THE BASKET. AVERAGE WEIGHTED DEVIATION FROM THESE PARITIES THEN DETERMINES NEW OUGUIYA/DOLLAR RATE. MARGIN OF .75 PERCENT IS APPLIED ON EITHER SIDE TO OBTAIN BUYING AND SELLING RATES.

2. ACCORDING TO IMF STUDY ON MAURITANIA DATED MAY 18,  
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1976, OUGUIYA HAS GENERALLY APPRECIATED RPT APPRECIATED

AGAINST US DOLLAR SINCE ADOPTION OF NEW EXCHANGE RATE SYSTEM ON JANUARY 22, 1974. BY FIRST QUARTER OF 1975, UM APPRECIATION REACHED MAXIMUM OF 9.7 PERCENT COMPARED TO YEAR EARLIER. BY FEBRUARY 1976 DEGREE OF UM APPRECIATION NARROWED TO 2.8 PERCENT. USING BASE PERIOD INDEX OF 100 DURING SECOND QUARTER OF 1972. IMF HAS CALCULATED AVERAGE VALUE OF OUGUIYA VIS-A-VIS US DOLLAR FOR EACH QUARTER UP TO FEBRUARY 1976;

QUARTER	1972	1973	1974	1975	1976
1ST	95.45	91.65	82.78	89.05	(FEB)
2ND	100	88.20	89.82	82.98	
3RD	99.65	83.37	90.62	89.16	
4TH	100.56	87.75	87.73	89.01	

ACTUAL OUGUIYA/US EXCHANGE RATE AT END OF EACH FISCAL YEAR AND PERCENT CHANGE IN VALUE DURING COURSE OF YEAR FOLLOW:

END FISCAL YEAR	UM EXCHANGE RATE	EXCHANGE VALUE UM
1973	41.	
1974	44.64	MINUS 8 PERCENT
1975	40.57	PLUS 9 PERCENT
1976	YRMIW	MINUS 10 PERCENT

ABOVE INDEX AND ACTUAL EXCHANGE TABLE SHOW CLEARLY THAT VALUE OF DOLLAR VIS-A-VIS THE OUGUIYA (AND ITS PREDECESSOR THE CFAF) RISE AND FALL WITHIN RELATIVELY LIMITED RANGE AND WITHOUT ANY PREDICTABLE PATTERN. BECAUSE VALUE OF DOLLAR HAS TENDED TO FALL OVER LONG HAUL VIS-A-VIS MAURITANIA'S CURRENCY, THE OVERALL IMPACT ON EMBASSY BUDGET HAS BEEN ADVERSE RPT ADVERSE. RECENT INCREASE IN VALUE OF DOLLAR HAS NOT BEEN SUBSTANTIAL NOR, IF HISTORY IS ANY INDICATION, CAN IT BE EXPECTED TO LAST LONG. VALUE OF \$US REACHED HIGH FOR CY 1976 DURING WEEK OF JULY 26 WHEN IT PEAKED AT 45.24 TO ONE \$US. BY WEEK OF AUGUST 9, \$US HAD ALREADY FLLLEN TO 44.88.

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3. INFLATION HS BEEN PERSISTENT PROBLEM IN MAURITANIA. ACCORDING TO IMF STATISTICS, CONSUMER PRICE INDEX (BASED ON FOOD, DOMESTIC STAFF, UTILITIES AND CLOTHING) FOR EUROPEAN-STYLE CONSUMPTION PATTERN IN NOUAKCHOTT INCREASED 8.5 PERCENT IN 1972, 6.7 PERCENT IN 1973, 12.6 PERCENT IN 1974 AND 9.8 PERCENT IN 1975. PRICE INCREASES FOR ITEMS PURCHASED LOCALLY WITH FUNDS FROM EMBASSY BEDGET HAVE RISEN EVEN MORE DRAMATICALLY. EXAMPLES OF LOCAL

INCREASES FROM BEGINNING TO BOF FY 1976 INCLUDE:

- A. EMBASSY MAINTENANCE CONTRACT: 20 PERCENT;
- B. EMBASSY GUARD CONTRACT: 20 PERCENT;
- C. OCEAN FREIGHT CHARGES: 10 PERCENT;
- D. ALL LEASES EFFECTIVE ON RENEWAL DATE: 20 TO 30 PERCENT;
- E. TAX-FREE GASOLINE: 6 PERCENT
- F. HOTELS: 4 TO 25 PERCENT;
- G. UTILITIES: 20 PERCENT.

IN ADDITION, DUE TO UNAVAILABILITY OF MANY SUPPLIES IN MAURITANIA, SIGNIFICANT PROPORTION OF EMBASSY BUDGET IS SPENT IN US. ON THESE OCCASIONS, THERE IS, OF COURSE, NO "WINDFALL" TO EMBASSY IF US DOLLAR HAPPENS TO BE APPRECIATING VIS-A-VIS OUGUIYA WHEN PURCHASE IS MADE

HANDYSIDE

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 AUG 1976  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976NOUAKC01925  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760307-0994  
**From:** NOUAKCHOTT  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1976/newtext/t19760869/aaaachzy.tel  
**Line Count:** 132  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION AF  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** ONLY  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** ONLY  
**Reference:** 76 STATE 189967, 76 ABIDJAN 7257, 76 ABIDJAN 7283  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** greeneet  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 19 MAR 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <19-Mar-2001 by hughespi>; APPROVED <27 JAN 2005 by greeneet>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** IMPACT OF EXCHANGE RATE FLUCTUATIONS AND OF INFLATION ON EMBASSY BUDGET  
**TAGS:** AFSP, MR  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006